The Triumph of Injustice
(W.W. Norton)

TaxJusticeNow.org

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Gabriel Zucman
Three main novelties:

- How much each social group pays in taxes, from early 20th century to today
- Elements for a new 21st century tax system, reconciling globalization and progressive taxation
- Tools for a democratic fiscal debate

TaxJusticeNow.org
Structure of the book

▷ Forensic analysis of how much each social group pays in taxes in 2018, post-Trump reform (Chapter 1)

▷ How the US went from having one the world’s most progressive tax system to one where billionaires pay less than their secretaries (Chapters 2–5)

▷ Our proposed tax reform (Chapters 6–9)

All figures, data, computer code, and technical background papers available at TaxJusticeNow.org
The rise of income inequality in the United States

Share of pre-tax national income

Bottom 50%

Top 1%

The US tax system today: A giant flat tax regressive at the top

Average tax rates by income group in 2018 (% of pre-tax income)

- Working class (average annual pre-tax income: $18,500)
- Middle-class ($75,000)
- Upper middle-class ($220,000)
- The rich ($1,500,000)

Average tax rate: 28%
The US flat tax: Composition by type of tax

Average tax rates by income group in 2018 (% of pre-tax income)

Corporate & property taxes
Consumption taxes
Payroll taxes
Individual income taxes
Estate tax
Since 2010, it is mandatory to have health insurance. Mostly done through employers.

- Cost $13,000 per covered worker, irrespect. of income

**Health insurance premiums = huge poll tax** administered by employers on behalf of gov (≈ Ancien Regime tax farming)

- Mandatory payments to insurers (private oligopoly) ≈ Medicare tax paid to gov (public monopoly)

- Except insurance premiums are much more regressive
The US tax system: flat... or massively regressive?
Long-Run Changes in Tax Progressivity in America
The shrinking progressivity of the US tax system

Average tax rates by income group (% of pre-tax income)

- Working class
- Middle-class
- Upper middle-class
- The rich

Year:
- 1950
- 1960
- 1970
- 1980
- 1990
- 2000
- 2010
- 2018
Why has tax progressivity collapsed?

Three main drivers of declining progressivity:

1. Collapse in capital taxation, itself reflecting changes in politics and ideology
2. Choice to tolerate certain forms of evasion. Let avoidance fester $\rightarrow$ slash rates $\rightarrow$ repeat
   - 1980s: individual income tax $\rightarrow$ Reagan 1986
   - 2000s-2010s: corporate tax $\rightarrow$ Trump 2017
   - But nothing inherent in globalization prevents K taxation: other choices are possible
The slow agony of the corporate tax

Federal tax revenue (% of national income)

Individual income tax

Corporate income tax
Letting tax evasion fester: The case of the corporate tax

Profits booked by US firms in tax havens (% of foreign profits of US firms)

- Puerto Rico
- Netherlands & Luxembourg
- Singapore
- Caribbean
- Ireland
- Switz.
The key role of the corporate tax for the wealthy

Average tax rate of the top 0.1% (% of pre-tax income)
Elements for a 21st Century Tax System
Our approach: three key principles

1. **Reconcile globalization with tax justice**
   - A plan to stop corporate tax evasion and tax competition

2. **Protect democracy by taxing extreme wealth**
   - With a 10% wealth tax above $1 billion, can stabilize wealth inequality to 1980 level

3. Fund health care and education (pre-K, university) for all by **reinventing the income tax**
   - New national income tax in lieu of current poll tax

One among many possible sets of solutions. Simulate yours! [TaxJusticeNow.org](http://TaxJusticeNow.org)
Our proposed US tax revolution:
Who would pay what

Average tax rates (% pre-tax income)

Effective tax rate in 2018
(incl. health insurance poll tax)

Our reform
Reconcile globalization with tax justice

A lot can be done unilaterally to tax corp. more

How the US could tax US firms:

▷ 25% minimum tax on country-by-country profits

▷ Ex: If Apple pays 2% on the profits it books in Ireland, US would collect the missing $23\% = 25\% - 2\%$

How the US could tax foreign firms:

▷ Sales apportionment of global tax deficit

▷ Ex: if Nestlé pays 2% globally and makes 30% of its sales in the US, US would collect $30\% \times (25\% - 2\%)$

Hard to avoid, can be done by any big country unilaterally
The progressive fiscal tradition in America

Top marginal tax rates in the US
Reconnect with America’s wealth tax tradition

US pioneered wealth taxation:

- Wealth taxes as far back as 17th c. in Northern states
- Not only on real estate but also financial assets and other personal property

Fight over wealth taxation: key in US fiscal history

- Massachusetts: wealth taxation until 1915 (attacked by Harvard profs who wanted to tax housing only [regressive], citing European example...)
- Virginia: slave-holding oligarchy existential fight against wealth taxes → archaic poll & sales taxes
If a wealth tax above $1 billion had been in place since 1982...

Wealth of the Forbes 400 (% of US wealth)

Share of wealth owned by the Forbes 400

3% wealth tax

10% wealth tax

90% wealth tax
Funding health care for all: the national income tax

Other countries use VAT and payroll taxes to fund health. But these taxes are regressive & have narrow base

▷ VAT: exempts saving and big sectors (finance, health, education): VAT base ≈ 40% of national income only

▷ Payroll tax: exempts capital income (growing fast)

Our solution: a tax on all of national income

▷ Base: all labor costs + interest + business profits + foreign dividends (≈ 94% of national income)

▷ 6% rate enough to fund health care for all & abolish private poll tax → big tax cut for bottom 90%
Abolish sales taxes and Trump tariffs

Economists’ love for consumption taxes is misplaced

▷ Theorized during post-WW2 decades of low capital stock / low wealth inequality; opposite context today

▷ What boosts saving: regulations (eg, automatic enrollment in pensions), not tax incentives

▷ Consumption taxes have no role in optimal tax system and are particularly archaic in US (sales taxes < VAT)

→ Our proposal abolishes all sales taxes and Trump tariffs (but keeps externality-correcting taxes on gasoline etc.)
Our proposed reform: Who would pay what

Average tax rates (% pre-tax income)

Effective tax rate in 2018 (incl. health insurance poll tax)

Our reform
TaxJusticeNow.org

Taxes of the people, by the people, for the people
For the first time in over a century, billionaires now pay lower tax rates than their secretaries.

TAX JUSTICE NOW
Reinventing fiscal democracy

What the user can do:

▷ Change existing taxes: income, corporate, estate, etc.
  Can change tax rates and enforcement.

▷ Create new taxes (wealth tax, VAT, national income tax, ...)

What the website does:

▷ Show impact on tax progressivity and revenue

▷ User-friendly: move levers or tick boxes

▷ Data, methodology, results are all posted online
Starting from who pays what today...

**Net Surplus:** $0

0% of National Income in 2019

Private health insurance included as an extra tax.
You can construct Warren’s wealth tax...

see impact on revenue
tax progressivity

Add a wealth tax
Select a plausible evasion tax rate...
Change other taxes...
Tax simulator models the candidates tax plans...
You can complete candidates tax plans...

Net Surplus: $-389.1B
-2% of National Income in 2019

Private health insurance included as an extra tax.
Widely held view that external or technical constraints make tax justice impossible is wrong

- Technically nothing in globalization prevents progressive taxation
- Tolerating tax evasion is a choice
- There is an infinity of possible future policy paths

Economists can be helpful by showing multiplicity of possible futures, and as plumbers—fixing leaks
Supplementary Slides
For the first time in 2018, billionaires paid lower tax rates than the working class.
Including health poll tax, working-class pays more than the top 0.1%
Two engines of inequality: ↘ taxes at the top, ↗ health costs for the rest

- Bottom 50% average pre-tax income has stagnated since 1980, at $18,500 per adult
- Out of this stagnating income, rising share goes to taxes & health → impedes wealth accumulation
- At the top, opposite process: booming income and falling taxes → snowballing wealth accumulation

There's no fixing inequality without fixing taxes:
- Progressive taxation is the safeguard that kept top wealth accumul. under control in 20th c., now gone
- The health care question is a tax question: what should replace the private poll tax?
The rise of income inequality in the United States

Share of pre-tax national income

Bottom 50%

Top 1%

Snowballing wealth accumulates at the top. Wealth stagnation at the bottom.

Wealth owned by top 1% vs. bottom 50%
(trillions of $2018)

In 2018: $33 trillion
(≈ 2 years of US national income)

In 1982: $5 trillion
(≈ 0.7 year of US national income)

Top 1% wealth

Bottom 50% wealth

In 1982: $0.4 trillion
($5,000 per person)

In 2018: $0.5 trillion
($5,000 per person)
The rise and fall of tax progressivity

Average tax rate (% of pre-tax income)

Top 0.1%

Bottom 90%
Paper profits are moving to tax havens; real activity less so.
Towards the death of the progressive income tax?

Collapse in global corporate tax rate (halved since 1980s)

Key problem: **no progressive income taxation possible without high enough corporate tax rate**

- If low corporate tax rate, the rich incorporate and retain earnings within their firm $\rightarrow$ save tax free
- Individual income tax becomes mere consumption tax
- As tax competition rages, gap between corp. vs. top indiv. tax rate rises $\rightarrow$ rich more likely to incorporate

Any progressive plan must start with a strategy to end inter’l tax competition. **Good news is: this is doable.**
TaxJusticeNow.org
How we simulate tax reforms

Two key questions to analyze a tax reform:

1. Effect on each group’s effective tax rate?
2. Effect on the dynamics of pre-tax income inequality?

Existing models (CBO, JCT, Treasury, Tax Policy Center) do 1. but for federal taxes only, and not 2.

TaxJusticeNow.org does 1. (for all taxes at all levels of gov.) and 2. through an interactive user-friendly website
For the first time in over a century, billionaires now pay lower tax rates than their secretaries.
Reinventing fiscal democracy

What the user can do:

▷ Change existing taxes: income, corporate, estate, payroll, etc. Can change tax rates and enforcement.
▷ Create new taxes (wealth tax, national income tax, ...)

What the website does:

▷ Show immediate impact on tax progressivity
▷ Show long-run effect on pre-tax income distribution (inequality)
▷ User-friendly: move levers or tick boxes, and graphs adjust in real time
→ Make tax debate available to broad audience
Starting from who pays what today...

**Net Surplus:** $-0.7B

0% of GDP in 2018
What’s the effect of Warren’s wealth tax?

**Make Your Own Tax Plan**

**STEP 1**
Adjust the sliders below to make your own tax plan. Or, you can start with a preset tax plan from the dropdown below.

Select a Tax Plan
Elizabeth Warren's Tax Plan

**STEP 2**
Select the tax you want to change from the navigation bar.

**STEP 3**
Download the results by clicking the button below, or reset the sliders to start over.

- **Net Surplus:** $202.1B
  1.2% of GDP in 2018

Select tax proposal, see impact on tax revenue tax progressivity

<table>
<thead>
<tr>
<th>Wealth Tax</th>
<th>Individual Income Tax</th>
<th>Corporate Tax</th>
<th>Estate Tax</th>
<th>Flat Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wealth Tax Brackets</td>
<td>$10m</td>
<td>$50m</td>
<td>$1bn</td>
<td>$1bn+</td>
</tr>
<tr>
<td>(End of Tax Bracket)</td>
<td>$1m</td>
<td>$10m</td>
<td>$50m</td>
<td>$1bn</td>
</tr>
</tbody>
</table>
What's the effect of higher wealth tax rates?

Make Your Own Tax Plan and see how adjusting various taxes can make the tax system more/less progressive.

- **STEP 1**
  Adjust the sliders below to make your own tax plan. Or, you can start with a preset tax plan from the dropdown below.

  Select a Tax Plan
  Elizabeth Warren's Tax Plan

- **STEP 2**
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- **STEP 3**
  Download the results by clicking the button below, or reset the sliders to start over.
What's the effect of higher top marginal income tax rates?
What’s the effect of minimum taxes for multinational companies?
Starting from the history of tax progressivity in the US...

Average tax rate (% of pre-tax income)

- Bottom 90%
- Top 0.1%

Year:
- 1910
- 1920
- 1930
- 1940
- 1950
- 1960
- 1970
- 1980
- 1990
- 2000
- 2010
- 2020
What if we increased top tax rates to maximize tax collection from the wealthy?

Average tax rates (% pre-tax income)

Top 0.1% tax rate, observed
Top 0.1% tax rate revenue-maximizing reform
Bottom 90% tax rate
1946–1980: growth equitably shared (triumph of representative agent model)

Annual pre-tax income growth, 1946-1980

Average income growth: 2.0%
After 1980: people’s growth (average of each person’s growth) $\ll$ macro growth

**Annual pre-tax income growth, 1980-2018**

- **Macro growth**: 1.4%
- **People's growth**: 0.65%

**Income percentile**
The 2 engines of injustice: falling taxes at the top, rising health poll tax for the rest

Average tax rate (% of pre-tax income)


Bottom 90%, incl. health

Top 0.1%

Bottom 90%
The Warren wealth tax would have a big impact on tax progressivity at the top.
How we simulate the effect of tax changes on pre-tax inequality (for wonks)

Key features of the model:

- Model works at percentile group level $p = 0-10$, ...
- Actual outcomes for group $p$ in year $t$: pre-tax income $z_{pt}$ and average tax rate $\tau_{pt}$
- Counterfactual outcomes: $\hat{z}_{pt}, \hat{\tau}_{pt}$ with an alternative tax system in place since year $t_0$
- $z_{pt}$ respond to taxes through behavioral elasticity $e_p$ that depends on overall marginal tax rate $mtr_{pt}$:
  $$z_{pt} = z_{pt}^0 \cdot (1 - mtr_{pt})^{e_p}$$
What if the US had kept a 70% top rate since the 1970s?
Two types of real behavioral responses to taxes (for wonks)

Key distinction: output vs. rent-sharing responses

- Output responses affect **level of output** through labor supply and capital accumulation: elasticity $e^O_{pt}$

- Rent-sharing responses affect pre-tax **distribution of output**: workers bargain for higher wages, private equity owner squeeze workers or customers: $e^R_{pt}$

$e^O_p, e^R_p$: not immutable parameters: $e^O_p$ could be 0 (as, eg, during World War 2).

Benchmark: $e^O_p = 0.25$ and $e^R_p = 0.75$ at top; can be modified by user.
What boosts saving: regulations, not tax incentives

US macroeconomic capital tax rate vs saving rates

- National saving rate
- Private saving rate
- Capital tax rate
### Summary of our reform: Taxing the rich

<table>
<thead>
<tr>
<th>Type of tax</th>
<th>Revenue (% of national income)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wealth tax</td>
<td></td>
</tr>
<tr>
<td>2% rate above $50 million</td>
<td>1.2%</td>
</tr>
<tr>
<td>3.5% rate above $1 billion</td>
<td></td>
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<tr>
<td>60% top marginal income tax rate</td>
<td></td>
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<tr>
<td>Income tax</td>
<td></td>
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<tr>
<td>Full taxation of dividends &amp; K gains</td>
<td>1.7%</td>
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<tr>
<td>Integration with corporate tax</td>
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<tr>
<td>Corporate tax</td>
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<tr>
<td>30% effective US corporate tax rate</td>
<td>1.2%</td>
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<tr>
<td>25% country-by-country minimum tax</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4.1%</td>
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<tr>
<td>Type of tax / spending</td>
<td>Revenue (% of national income)</td>
</tr>
<tr>
<td>------------------------------------------------------------</td>
<td>--------------------------------</td>
</tr>
<tr>
<td>Abolish health care poll tax</td>
<td>–6.0%</td>
</tr>
<tr>
<td>$8,000 for currently-covered workers</td>
<td></td>
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<tr>
<td>$8,000 for the currently uninsured</td>
<td></td>
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<tr>
<td>Education for all</td>
<td>–1.0%</td>
</tr>
<tr>
<td>Public child care and early education</td>
<td></td>
</tr>
<tr>
<td>Free tuition for public universities</td>
<td>–0.5%</td>
</tr>
<tr>
<td>Abolish sales taxes Eliminate sales taxes and Trump tariffs</td>
<td>–2.3%</td>
</tr>
<tr>
<td>National income tax</td>
<td>5.6%</td>
</tr>
<tr>
<td>Flat 6% rate</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>–4.1%</strong></td>
</tr>
</tbody>
</table>
Comparison with PSZ

Top 0.1% effective tax rate

- PSZ 2018
- Saez and Zucman 2019
The working-class does not benefit on net from cash redistribution

Real average income of bottom 50%: pre-tax vs. post-tax

Pre-tax income

Income after taxes and after cash (& quasi-cash) transfers
The tax system of France appears no more progressive than that of the US.